OLR Bill Analysis

sSB 258

AN ACT CONCERNING AN INCREASE IN THE MAXIMUM ALLOWABLE UNEMPLOYMENT COMPENSATION TRUST FUND BALANCE.

SUMMARY:

Beginning with the 2013 calendar year, this bill increases the amount that can be retained in the unemployment compensation trust fund by changing the method used to calculate the ideal amount of money the fund should contain. Under current law, the fund's goal is 0.8% of the total wages paid by contributing employers. In 2013, the bill changes the goal to an average high cost multiple (AHCM) of 0.5 (i.e., one half year's worth of average recessionary level unemployment benefits) then increases it by 0.1 per year until it reaches an AHCM of 1.0 (one year's worth of average recessionary level unemployment benefits) in 2018. From that point forward, the bill requires the fund's goal to be an AHCM of 1.0.

The bill maintains the current law's fund balance tax rate paid by employers that varies between zero, when the fund meets its goal, and a statutory maximum of 1.4%, when the fund is significantly below its goal (see BACKGROUND). As under current law, it also (1) requires the fund administrator to lower the rate when the fund exceeds its goal and (2) prohibits the administrator from setting a rate that will result in the fund exceeding its goal.

EFFECTIVE DATE: October 1, 2012

CALCULATING THE AHCM

Under the bill, the AHCM is determined by (1) expressing the amount in the unemployment trust fund at the end of each calendar year as a percentage of the total wages paid by contributing employers during that year and (2) dividing that number by the average of the three highest annual benefit amounts (expressed as a percentage of the total covered wages) that were paid over the last 20 years or last three recessions, whichever period is longer.

Example

If a state has $500 million in its unemployment trust fund and total covered wages of $50 billion, it has 1.0% of covered wages in its trust fund. If, during the three worst years of the state's last three recessions, the state paid annual benefits worth 1.5%, 2.0%, and 2.5% of its total covered wages, the average highest benefit amount would be 2.0%. The state's AHCM would therefore be 1.0/2.0 = 0.5. With an AHCM of 0.5, the state could expect the $500 million in its trust fund to cover six months of recessionary level benefits without any additional funding.

BACKGROUND

The AHCM

The AHCM expresses how many years the current reserve in an unemployment trust fund can pay out benefits at a historically high payout rate. If a state's AHCM is 1.0 immediately prior to a recession, and if the recession is of the average magnitude of the last three recessions, then the money in the state's trust fund should be able to cover one year of unemployment benefits without any additional funding. If the state's AHCM is 0.5, then the state should be able to cover six months of benefits.

Unemployment Taxes

The first 26 weeks of a claimant's unemployment benefits are financed by unemployment taxes paid by employers. In general, private sector employers pay unemployment taxes on the first $15,000 in annual wages paid to each of their employees. The rate at which the employers are taxed has two components: (1) the employer's experience rate, which is based on the amount of benefits paid to an employer's former employees and (2) the fund balance rate, which varies from zero to 1.4% depending on the trust fund's status in relation to its funding goal.

Federal Regulations

Under regulations implemented by the U.S. Department of Labor in 2010, to qualify for a short-term interest free unemployment loan from the federal government, a state's trust fund must have met certain AHCM goals in at least one of the five years preceding the loan request. These goals are phased in over five years, with an AHCM of 0.5 required in 2014, and an AHCM of 1.0 required in 2019.

COMMITTEE ACTION

Labor and Public Employees Committee

Joint Favorable Substitute
Yea 9 Nay 2 (03/15/2012)